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COMPREHENSIVE EMPLOYMENT AND TRAINING ACT  
SUBGRANT NUMBERS 76-56048 AND 76-56049  
AWARDED TO THE BOARD OF PUBLIC EDUCATION

Report on Examination of Financial Statements  
For The Period July 1, 1975 to September 30, 1976

Conducted Under Contract By  
Ernst and Ernst, CPA's

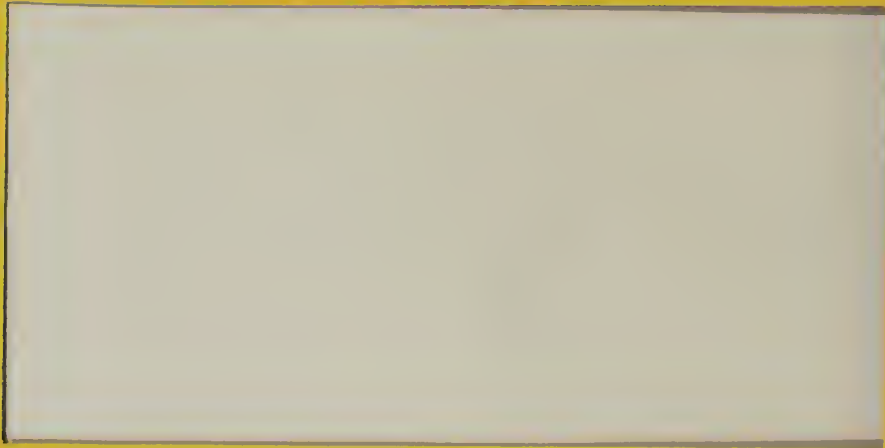


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STATE OF MONTANA

Office of the Legislative Auditor

STATE CAPITOL  
HELENA, MONTANA 59601  
406/449-3122



MORRIS L. BRUSETT  
LEGISLATIVE AUDITOR

October 13, 1977

DEPUTY LEGISLATIVE AUDITORS:  
JOSEPH J. CALNAN  
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ELLEN FEAVER  
FINANCIAL-COMPLIANCE AND  
CONTRACTED AUDITS

STAFF LEGAL COUNSEL  
JOHN W. NORTHEY

The Legislative Audit Committee  
of the Montana State Legislature:

Transmitted herewith are reports on the audit of the following  
Comprehensive Employment and Training Act subgrants awarded to the  
Board of Public Education:

76-56048

76-56049

These audits were conducted by Ernst and Ernst, CPA's, under a  
contract between the firm and our office. The comments and recom-  
mendations contained in these reports represent the views of the firm  
and not necessarily the Legislative Auditor.

The agency's responses to the report recommendations are included  
in the back of this report.

Respectfully submitted,

*Morris L. Bruset*

Morris L. Bruset, CPA  
Legislative Auditor

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Summary of Recommendations

CETA Subgrant Number 76-56048

CETA Subgrant Number 76-56049

Agency Replies:

Governor's Employment and Training Council

Office of the Superintendent of Public Instruction

## SUMMARY OF RECOMMENDATIONS

As a separate section in the front of each audit report we include a listing of all recommendations with a notation as to whether the agency concurs or does not concur with each recommendation. This listing serves as a means of summarizing the recommendations contained in the reports and the audited agency's replies thereto and also as a ready reference to the supporting comments. The full reply of the Office of the Superintendent of Public Instruction (OSPI) and the Governor's Employment and Training Council are included in the back of this report. The same recommendations were made in both reports, so they will only be listed once.

### Page

#### Subgrant Numbers 76-56048 and 76-56049

That OSPI review its internal accounting procedures, improve its monitoring of sponsoring agencies, and correct its mistakes.

11 Of Both Reports

Agency Reply: Partially concur. See pages 2, 3, and 8.

That OSPI improve its cash budgeting procedure in order to match more closely its monthly requests for funds with monthly anticipated expenditures.

11 Of Both Reports

Agency Reply: Concur. See pages 4 and 8.

That OSPI take the necessary steps to request agencies to return excess funds more promptly.

12 Of Both Reports

Agency Reply: Concur. See pages 5 and 8.

That the Great Falls Vo Tech should properly reconcile its costs with amounts controlled by the business office and that the process of estimating costs be eliminated.

12 Of Both Reports

Agency Reply: Concur. See pages 5 and 8.

That the Missoula Tech Center improve its accounting for accruals.

13 Of Both Reports

Agency Reply: Partially concur. See pages 5 and 8.

That the Missoula Tech Center should provide for proper approval of invoices received.

13 Of Both Reports

Agency Reply: Concur. See pages 5 and 8.



SUMMARY OF RECOMMENDATIONS (Continued)

Page

That the Missoula Tech Center should provide for proper classification of costs in the cost categories for administration, training, and services.

13 Of Both Reports

Agency Reply: Concur. See pages 5 and 8.

That OSPI adopt a plan for control of all equipment purchased with CETA funds.

18 and 15 Of The  
Respective Reports

Agency Reply: Concur. See page 6 and 11.

That OSPI improve its own internal accounting with respect to costs of agencies with which it contracts for services and to monitor such agencies much more effectively in the future.

20 and 17 Of The  
Respective Reports

Agency Reply: Concur. See pages 2, 3, and 8.



AUDIT REPORT

CETA SUBGRANT NUMBER 76-56048 AWARDED TO  
BOARD OF PUBLIC EDUCATION

HELENA, MONTANA

SUBGRANT PERIOD FROM JULY 1, 1975 TO SEPTEMBER 30, 1976



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# Ernst & Ernst

2700 Seattle-First National Bank Bldg • 1001 Fourth Ave • Seattle, WA 98154 • Phone 206/622-0010

April 8, 1977

To the Legislative Audit Committee  
of the Montana State Legislature:

We have examined the financial and related program records of the CETA Subgrant number 76-56048 awarded to the Board of Public Education (Subgrantee) for the period July 1, 1975 to September 30, 1976, including cash transactions to the date of the subgrantee's amended final close out at April 7, 1977. Such cash transactions represent expenditures incurred for discharge of cost accruals at September 30, 1976 or amounts due as of that date from certain agencies with which the subgrantee contracted for services. The subgrant agreement was for \$704,704.00 of which \$662,406.40 was advanced to the subgrantee. Costs of the subgrantee totaled \$670,196.77.

Except as explained in the following paragraph, our examination was made in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" issued by the Comptroller General of the United States, applicable to examinations of financial operations and reviews of compliance with applicable laws and regulations and the CETA financial audit guide issued by the U.S. Department of Labor, and it included tests of the accounting and program records and such other auditing procedures as we considered necessary in the circumstances. Audit samples were drawn from costs of \$545,737.19 which relate to those locations selected for audit.

Based upon our review of the areas of compliance and internal control as discussed in Schedule E included hereinafter, we do not believe that the subgrantee has followed adequate procedures in the fiscal management of subgrant funds it has received nor in the proper monitoring of sponsoring agencies with which it contracted for services. Accordingly, we do not believe that the subgrantee's internal accounting and administrative control procedures conform to procedures prescribed by Federal Regulations and the Department of Labor CETA guidelines with respect to accountability of assets and costs and compliance with regulations. Additionally, we were unable to obtain sufficient competent evidential matter to satisfy ourselves with respect to \$239,885.93 of costs incurred by the subgrantee as discussed in Schedule E, because we believe that a portion or all of such costs were either arbitrarily or erroneously charged to the CETA



program. Further, we were unable to audit costs of \$46,315.60 incurred by the subgrantee, also discussed in Schedule E, because we were unable to obtain detail of how the costs were determined nor invoices or other data to support such costs. Schedule D included hereinafter lists \$286,201.53 of questioned costs, which amount is the sum of the two amounts indicated above. Schedules A, B, and C have been prepared on the accrual basis of accounting.

Because we do not believe that the subgrantee's internal accounting and administrative control procedures are adequate and, as explained above, we were unable to satisfy ourselves with respect to costs of \$286,201.53, we are unable to express an opinion on the fairness of the financial information contained in Schedules A, B, and C.

The determination as to whether costs incurred by the subgrantee under the subgrant will be allowable or unallowable will be made by the Department of Labor.

This report is intended for use in connection with the administration of the CETA subgrant to which it refers and should not be used for any other purpose.

*Ernst & Ernst*

BOARD OF PUBLIC EDUCATION  
SUBGRANT NUMBER 76-56048

STATUS OF FEDERAL FUNDS

SUBGRANT PERIOD FROM JULY 1, 1975 TO SEPTEMBER 30, 1976  
(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

<u>Cash on Hand - July 1, 1975</u>	\$ -0-
<u>Increases</u>	
Federal Cash Received	
Program Income	\$662,406.40
	<u>-0-</u>
Total Increases	662,406.40
Total Cash Available	662,406.40
<u>Decreases</u>	
Gross Disbursements	670,196.77
Adjustments	<u>-0-</u>
Total Decreases	670,196.77
<u>Cash on Hand - at final close out (Excess of disbursements over receipts)</u>	<u>\$ (7,790.37)</u>



SCHEDULE B

BOARD OF PUBLIC EDUCATION  
STATEMENT OF ACCRUED EXPENDITURES

SUBGRANT PERIOD FROM JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

<u>Cost Category</u>	<u>Cumulative Budget</u>	<u>Cash Disbursements</u>	<u>Accruals</u>	<u>Accrued Expenditures</u>
Administration	\$120,000.00	\$111,910.65	\$-0-	\$111,910.65
Training	520,704.00	499,189.11	-0-	499,189.11
Services	<u>64,000.00</u>	<u>59,097.01</u>	<u>-0-</u>	<u>59,097.01</u>
Total	<u>\$704,704.00</u>	<u>\$670,196.77</u>	<u>\$-0-</u>	<u>\$670,196.77</u>

BOARD OF PUBLIC EDUCATION  
ACCRUED EXPENDITURES BY PROGRAM ACTIVITY  
SUBGRANT PERIOD FROM JULY 1, 1975 THROUGH SEPTEMBER 30, 1976  
 (INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

<u>Cost Category</u>	<u>Institutional Classroom Training</u>	<u>Total</u>
Administration	\$111,910.65	\$111,910.65
Training	499,189.11	499,189.11
Services	<u>59,097.01</u>	<u>59,097.01</u>
Total Actual to Date	<u>\$670,196.77</u>	<u>\$670,196.77</u>
Total Planned to Date	<u>\$704,704.00</u>	<u>\$704,704.00</u>

SCHEDULE D

BOARD OF PUBLIC EDUCATION  
SUMMARY SCHEDULE OF QUESTIONABLE EXPENDITURES  
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976  
(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

<u>Cost Category</u>	<u>Cumulative Budget</u>	<u>Accrued Expenditures</u>	<u>Amount Questioned</u>	<u>Schedule</u>
Administration	\$120,000.00	\$111,910.65		
Training	520,704.00	499,189.11		
Services	64,000.00	59,097.01		
Total	<u>\$704,704.00</u>	<u>\$670,196.77</u>	<u>\$286,201.53</u>	E

Note - Costs questioned along with other related matters are discussed in Schedule E.

BOARD OF PUBLIC EDUCATION

SUBGRANT NUMBER 76-56048

COMPLIANCE AND INTERNAL CONTROL

FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976  
(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

A. Summary of Auditor's Observations and Recommendations

As part of our examination, we made a study of the system of internal accounting and administrative control to the extent we considered necessary to evaluate the system as required by the CETA Audit Guide.

The objective of internal accounting and administrative control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal and administrative accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal accounting and administrative control for the period July 1, 1975 to September 30, 1976 would not necessarily disclose all weaknesses in the system. In our opinion, the internal accounting and administrative control procedures are not sufficiently adequate to conform to procedures prescribed by Federal Regulations and the Department of Labor CETA guidelines which have been determined to be adequate for accountability of assets and compliance with regulations. The following comments discuss a number of matters which lead us to believe that the Subgrantee has not followed adequate procedures in the fiscal management of subgrant funds it has received nor in the proper monitoring of sponsoring agencies with which it contracts for services.

SCHEDULE E

BOARD OF PUBLIC EDUCATION  
SUBGRANT NUMBER 76-56048

COMPLIANCE AND INTERNAL CONTROL (CONTINUED)

FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976  
(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

Errors in Monthly Expenditure Reports and in Subgrant Close Out Reports

Reports submitted by the Office of the Superintendent of Public Instruction (OSPI) to the Governor's Office Employment Training Council and to us for review were improperly prepared for several months during the subgrant period. Substantial unexplained differences were noted by us when we added prior monthly cost accumulations to date to current monthly costs to arrive at current monthly cost accumulations to date for the months of September 1975, and for February, March, April, May, July, and September of 1976. The September, 1976 cost report showed total costs of \$553,533.76 before close out of the subgrant period.

OSPI submitted a subgrant close out report dated November 12, 1976 which reflected costs incurred of \$615,077.36 through September 30, 1976. This figure was intended to include cost accruals owing at the subgrant closing date over and above the \$553,533.76 noted above. However, the \$615,077.36 was in error because it did not include costs of \$35,608.49 reported by one sponsoring agency and other sundry cost accruals totaling \$7,547.65.

OSPI submitted a revised subgrant close out report dated April 7, 1977 which reflected corrections for the above two omissions and adjustments for certain costs reported by sponsoring agencies with the result that costs totaling \$670,196.77 were finally reported in the revised report.

We have reviewed the OSPI close out reports of November 12, 1976 and April 7, 1977 and related close out reports from sponsoring agencies with which OSPI contracted for services as well as administration costs incurred by the OSPI headquarters office, and we were finally able to reconcile costs reported by agencies and OSPI headquarters costs to the aforementioned cost totals of \$615,077.36 and \$670,196.77.

Because the earlier close out report submitted by OSPI was not accurate we used the amounts reflected in the final OSPI revised close out report dated April 7, 1977 in Schedules A, B, C, and D included heretofore in this report.



BOARD OF PUBLIC EDUCATION  
SUBGRANT NUMBER 76-56048

COMPLIANCE AND INTERNAL CONTROL (CONTINUED)

FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976  
(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

Part of the problem in cost reporting appears to have been the result of the inability of OSPI to obtain proper timely cost reports from its sponsoring agencies and its own inability to properly summarize costs reflected by such reports and to relate these costs to those recorded by its fiscal division.

We strongly recommend that OSPI review its internal accounting procedures, improve its monitoring of sponsoring agencies, and correct its mistakes in order that reports prepared in the future will be accurate and not misleading.

Comparison of Cash Receipts with Cash Expenditures

Despite the problems which we encountered in our review of period to date cost reportings noted above, we did make a comparison of cash received from the prime sponsor with expenditures incurred, however, such comparison was not too meaningful because of the wide swings in reported cost figures on a cumulative monthly basis. It appears, however, that OSPI was drawing funds too rapidly from the prime sponsor during some months of the subgrant period.

We strongly recommend that OSPI improve its cash budgeting procedures in order to match more closely its monthly requests for funds with monthly anticipated expenditures in order that it may more efficiently utilize funds obtained from the prime sponsor.

Cash Balance Based Upon Final Revised Close Out Report of April 7, 1977

The revised report reflected an excess of expenditures over receipts of \$7,790.37, comprised of the following amounts:

Overdraft in state cash account as reported by fiscal division	\$23,829.82
Less refunds due from sponsoring agencies	<u>16,039.45</u>
Excess of total expenditures over total receipts as set forth in Schedule A included heretofore	<u>\$ 7,790.37</u>

BOARD OF PUBLIC EDUCATION

SUBGRANT NUMBER 76-56048

COMPLIANCE AND INTERNAL CONTROL (CONTINUED)

FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

Our analysis of the status of cash balances disclosed that OSPI was not timely in requesting return of funds from sponsoring agencies on a timely basis when advances made to them exceeded their actual costs incurred. One agency returned \$1,064.51 in October 1976; six agencies returned \$10,106.63 in March and April, 1977; and one agency had not yet returned \$4,868.31 as of April 7, 1977.

We strongly recommend that OSPI take the necessary steps to request agencies to return excess funds more promptly.

Audit of Costs Incurred by Certain Sponsoring Agencies

We selected certain agencies sponsored by OSPI for audit of costs incurred by them which were charged to the CETA program. Our comments follow.

(1) Grant Falls Vo Tech:

OSPI account 0594 - costs of \$22,901.69

OSPI account 0612 - costs of \$35,608.49

The Vo Tech office maintains certain cost records and the School District business office also maintains certain records as to costs incurred and receipt of funds from OSPI. We noted that costs were reasonably well supported, however, minor differences occurred in the recording of costs by the two bodies. We also noted that reported cost figures to OSPI from time to time were estimates or best guesses.

We recommend that this agency should properly reconcile its costs with amounts controlled by the business office and that the process of estimating costs be eliminated in order that monthly cost reports to OSPI may be accurate.

(2) Missoula Tech Center

OSPI account 0595 - costs of \$54,723.33



BOARD OF PUBLIC EDUCATION  
SUBGRANT NUMBER 76-56048

COMPLIANCE AND INTERNAL CONTROL (CONTINUED)

FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976  
(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

Differences between Tech Center reported costs to OSPI and those recorded in its records tend to be minor. The differences appear to be the result of improper accruals caused by lateness of invoices received by Tech Center.

We recommend that Tech Center improve its accounting for accruals since it should have adequate knowledge of amounts to be invoiced even though invoices are not promptly received. Additionally, we recommend that Tech Center should provide for proper approval of invoices received, which approval is sometimes lacking, and also provide for proper classification of costs in the cost categories for administration, training, and services. Classification of costs on occasion is not properly made.

(3) Billings Vo Tech:

OSPI account 0593 - costs of \$165,800.00

This agency received \$165,800.00 from OSPI and its final expenditure report indicated that this amount was totally spent. Its records appear to indicate that its costs were slightly higher, however, the school charged the CETA program with total costs equal to its total receipts.

In our examination of costs at the school and in our discussion with school personnel we learned that charges totaling \$128,667.77 to the CETA program for compensation paid to instructors and staff and other costs were made arbitrarily and were not based upon the portion of employees' time working in particular areas nor based upon the number of CETA students in relation to all students as a whole. Additionally, we learned that for the month of July 1976 CETA funds were used to pay for all of the instructors' salaries. The school, which is usually closed during the summer months was kept open to serve students, some of whom were not CETA students. For that month, compensation amounting to \$24,336.21 was charged to the CETA program. In addition, fringe benefit costs (paid in later months) amounted to approximately 15% of compensation or \$3,651.00, and other costs charged to the July program amounted to \$5,155.02. Thus, total July costs amounted to \$33,142.23. Monthly costs prior to July which were charged to the CETA program were considerably less than the July costs.

BOARD OF PUBLIC EDUCATION  
SUBGRANT NUMBER 76-56048

COMPLIANCE AND INTERNAL CONTROL (CONTINUED)

FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976  
(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

The school charged \$3,990.00 to the CETA program in September 1976 for lease rental of a copy machine for the period August 1, 1976 to March 1, 1977. This charge which covers in part a period of time subsequent to September 30, 1976, is excessive.

In view of the matters discussed above we were unable to satisfy ourselves as to the propriety of the aforementioned total costs of \$165,800.00.

(4) Billings Vo Tech:

OSPI account 0597 - costs of \$47,256.00

This agency received \$47,256.00 from OSPI. Its final expenditure report indicated costs of this amount, which costs included \$14,908.68 for administration and \$32,347.32 for services. The \$14,908.68 for administration costs exceeds the 20% CETA guideline for administration costs to total costs, however, our review of the agency's records indicates that costs appeared to be arbitrarily classified between the two cost categories with the result that costs chargeable to administration should have been considerably less than those reported and costs charged to services should have been correspondingly higher.

Aggregate costs of \$47,256.00 include the compensation of one instructor for the 13 months ended September 30, 1976, and accruals totaling \$3,510.43 which includes the compensation of two instructors and other costs for the period after September 30, 1976. It appears evident that this agency accrued the \$3,510.43 to equal its total budgeted costs of \$47,256.00 which is also equal to the total amount received from OSPI.

As in the case with respect to Billings Vo Tech account 0593 discussed above, cost charges to the CETA program in this account appear to have been made on an arbitrary basis without regard to the number of CETA and non CETA students served.

In view of the matters discussed above we take exception to the aforementioned total costs of \$47,256.00.

BOARD OF PUBLIC EDUCATION  
SUBGRANT NUMBER 76-56048

COMPLIANCE AND INTERNAL CONTROL (CONTINUED)

FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976  
(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

(5) Billings Adult Learning Center:

OSPI account 0596 - costs of \$23,120.23

Analysis of this account through March 1976 indicated cost charges to the CETA program of \$21,620.23. On March 25, 1977 the agency submitted a final cost report to OSPI adding \$1,500.00 to costs for total costs of \$23,120.23 which is equal to the amount it received.

Based upon our audit and discussion with the school's director we learned that there were no students in the beginning of the program, however, teachers were hired and their compensation and other costs were charged to the program. The major portion of the costs were charged to the program in the fall of 1975 and it appears that students were enrolled subsequently.

It is evident that there is little correlation between costs charged to the program and the costs actually incurred in training students. Further, some of the students who the agency refers to as CETA students in its count were not screened by the Employment Security Department but have come into the school "right off the street". Therefore, it is not possible to determine whether participants qualify as to specific criteria under Title I of the CETA act.

In view of the matters discussed above we take exception to the total costs of \$23,120.23 charged by this agency to the CETA program.

(6) All State Individual Referral Program:

OSPI account 0592 - costs of \$115,186.58

In its earlier close out of the subgrant period as of November 12, 1976 OSPI reflected costs of \$103,929.23 in its records applicable to amounts paid to various agencies for various types of training. In its final close out as of April 7, 1977 total costs of \$115,186.58 were so recorded. The earlier figure of \$103,929.93 was understated by \$7,547.65 since it did not include costs of five agencies for the month of September 1976 or prior.



BOARD OF PUBLIC EDUCATION  
SUBGRANT NUMBER 76-56048

COMPLIANCE AND INTERNAL CONTROL (CONTINUED)

FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976  
(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

With respect to the later figure of \$115,186.58 the cost cut off is not clear, however, such amount appears to include post September 30, 1976 costs paid in October 1976 to the following agencies:

	Claim Number	Amount
Physicians Laboratory	5498	\$2,548.50
Helena Vo Tech	5454	70.00
Helena Vo Tech	5494	453.00
Dawson County Treasurer	5550	558.20
Lewis & Clark County Treasurer	5549	80.00
Total		<u>\$3,709.70</u>

Thus, costs in the amount of \$3,709.70 are overstated in this account to which we take exception.

Costs incurred under the individual referral program included \$14,900.00 paid to Yellowstone Auto College. We were advised that this agency went bankrupt and that there may possibly have been irregularities on the part of the owner. We were also advised that the situation was investigated but that little if anything can be done about it. This type of situation suggests that the Department could do a better job of screening agencies with which it has significant contracts and of exercising a greater degree of surveillance over them. In the Auto College case the advances were made to it from October, 1975 to February, 1976 with the largest advance, \$5,500.00, made to it on February 23, 1976.

(7) "Carry-In" Projects from Prior Period Ended June 30, 1975:

Total costs for the fifteen month period ended September 30, 1976 include the costs of certain agencies for projects which were not completed during the prior subgrant period. The OSPI budget for the current period includes these "carry-in" projects and was approved by the Governor's Office Employment Training Council. Such costs totaled \$75,038.54, as follows:

BOARD OF PUBLIC EDUCATION  
SUBGRANT NUMBER 76-56048

COMPLIANCE AND INTERNAL CONTROL (CONTINUED)

FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976  
(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

	OSPI Account	Amount
Billings Adult Learning Center	0605	\$ 5,376.13
Billings Vo Tech	0613	27,471.11
Great Falls Vo Tech	0620	10,713.84
Helena Industries	0644	6,343.64
Billings Vo Tech - Diesel	0663	1,137.35
Flathead Valley Community College	0664	6,289.33
Balance of State Individual Referral programs	0612	17,707.14
Total		<u>\$75,038.54</u>

In connection with our examination of costs of various agencies which we selected for audit we also endeavored to audit the costs related to several of the "carry-in" projects. Our comments follow:

Billings Adult Learning Center:

Costs of \$5,376.13 include \$2,330.84 for "minor remodeling" of facilities the major portion of which relates to electrical work. The nature of this project suggests that such items be specifically approved in advance by OSPI.

Great Falls Vo Tech:

We were able to reasonably support its costs of \$10,713.84.

SCHEDULE E

BOARD OF PUBLIC EDUCATION  
SUBGRANT NUMBER 76-56048

COMPLIANCE AND INTERNAL CONTROL (CONTINUED)

FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976  
(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

We were unable to obtain details of how the costs of the following agencies were determined nor invoices or other data to support their costs:

Billings Vo Tech	\$27,471.11
Billings Vo Tech - Diesel	1,137.35
Balance of State Individual	
Referral programs	<u>17,707.14</u>
Total	<u>\$46,315.60</u>

Property Accounting

Certain schools which OSPI sponsors in its training programs which are included in this subgrant occasionally purchase equipment with CETA funds for use in such programs. We found no evidence at the OSPI office that it was maintaining control over this equipment or requesting agencies to provide continuity schedules for acquisition or disposition of this equipment.

We strongly recommend that OSPI adopt a plan for control of all equipment purchased with CETA funds.

Summary

The following is a summary of costs incurred under this subgrant, costs incurred by the subgrantee at audited locations and cost exceptions:

	OSPI Account	Total Costs	Costs of Audited Locations	Cost Exceptions
Great Falls Vo Tech	0594	\$ 22,901.69	\$ 22,901.69	
Great Falls Vo Tech	0612	35,608.49	35,608.49	
Missoula Tech Center	0595	54,723.33	54,723.33	
Missoula Opportunity School	0655	8,407.06		

## BOARD OF PUBLIC EDUCATION

SUBGRANT NUMBER 76-56048

## COMPLIANCE AND INTERNAL CONTROL (CONTINUED)

FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

	OSPI Account	Total Costs	Costs of Audited Locations	Cost Exceptions
Billings Adult Learning Center	0596	23,120.23	23,120.23	23,120.23
Billings Vo Tech	0597	47,256.00	47,256.00	47,256.00
Flathead Valley Community College	0610	3,489.40		
Flathead Valley Community College	0662	3,528.01		
Flathead Valley Community College	0663	10,896.74		
Lame Deer - North Cheyene	0657	23,003.37		
Miles Community College	0661	4,472.43		
Helena Vo Tech	0660	11,714.00		
All State Individual Referral Program	0592	115,186.58	115,186.58	3,709.70
		<u>530,107.33</u>	<u>464,596.32</u>	<u>239,885.93</u>
Carry-in projects from prior fiscal period:				
Billings Adult Learning Center	0605	5,376.13	5,376.13	
Billings Vo Tech	0613	27,471.11		\$ 27,471.11
Great Falls Vo Tech	0620	10,713.84	10,713.84	
Helena Industries	0644	6,343.64		
Billings Vo Tech - Diesel	0663	1,137.35		1,137.35
Flathead Valley Community College	0664	6,289.33		
Balance of State Individual Referral programs	0612	17,707.14		17,707.14
		<u>75,038.54</u>	<u>16,089.97</u>	<u>46,315.60</u>
OSPI - Helena office administration costs		65,050.90	65,050.90	
		<u>\$670,196.77</u>	<u>\$545,737.19</u>	<u>\$286,201.53</u>



SCHEDULE E

BOARD OF PUBLIC EDUCATION

SUBGRANT NUMBER 76-56048

COMPLIANCE AND INTERNAL CONTROL (CONTINUED)

FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

We strongly recommend that OSPI improve its own internal accounting with respect to costs of agencies with which it contracts for services and to monitor such agencies much more effectively in the future in order that such agencies will maintain satisfactory records, maintain support for costs incurred and properly account to it for costs which may be properly chargeable to specific programs for which federal funds are disbursed instead of allowing such agencies to follow arbitrary procedures in charging their costs to the programs which they sponsor in cooperation with OSPI.

B. Discussion of Audit Results

We discussed various matters with personnel of the sponsoring agencies which we selected for audit and, in addition, with CETA personnel of the Office of the Superintendent of Public Instruction on April 7, 1977. On that date we advised the personnel of OSPI that we would discuss a number of matters in our report and that we would take exception or qualification in the report. We also advised OSPI personnel that we had to devote an excessive amount of time and expense to conduct the audit of this subgrant because of the poor records and controls and the numerous deficiencies with respect to which we had to cope.

This report is intended for use in connection with the administration of the CETA Subgrant to which it refers and should not be used for any other purpose.

AUDIT REPORT

CETA SUBGRANT NUMBER 76-56049 AWARDED TO  
BOARD OF PUBLIC EDUCATION

HELENA, MONTANA

SUBGRANT PERIOD FROM JULY 1, 1975 TO SEPTEMBER 30, 1976



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Accountants' Report

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C - Accrued Expenditures by Program Activity	7
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E - Compliance and Internal Control	9

# Ernst & Ernst

2700 Seattle-First National Bank Bldg • 1001 Fourth Ave • Seattle, WA 98154 • Phone 206/622-0610

April 8, 1977

To the Legislative Audit Committee  
of the Montana State Legislature:

We have examined the financial and related program records of the CETA Subgrant number 76-56049 awarded to the Board of Public Education (Subgrantee) for the period July 1, 1975 to September 30, 1976, including transactions to the date of the subgrantee's amended final close out at April 7, 1977. Such cash transactions represent expenditures incurred for discharge of cost accruals at September 30, 1976 or amounts due as of that date from certain agencies with which the subgrantee contracted for services. The subgrant agreement was for \$479,699.00 all of which was advanced to the subgrantee. Costs of the subgrantee totaled \$446,407.51.

Except as explained in the following paragraph, our examination was made in accordance with the "Standards for Audit of Governmental Organizations, Programs, Activities and Functions" issued by the Comptroller General of the United States, applicable to examinations of financial operations and reviews of compliance with applicable laws and regulations and the CETA financial audit guide issued by the U.S. Department of Labor, and it included tests of the accounting and program records and such other auditing procedures as we considered necessary in the circumstances. Audit samples were drawn from costs of \$290,976.49 which relate to those locations selected for audit.

Based upon our review of the areas of compliance and internal control as discussed in Schedule E included hereinafter, we do not believe that the subgrantee has followed adequate procedures in the fiscal management of subgrant funds it has received nor in the proper monitoring of sponsoring agencies with which it contracted for services. Accordingly, we do not believe that the subgrantee's internal accounting and administrative control procedures conform to procedures prescribed by Federal Regulations and the Department of Labor CETA guidelines with respect to accountability of assets and costs and compliance with regulations. Additionally, we were unable to obtain sufficient competent evidential matter to satisfy ourselves with respect to \$105,565.74 of costs incurred by the subgrantee as discussed in Schedule E, because we believe that a portion or all of such costs were either arbitrarily or erroneously charged to the CETA program. Further, we were unable to audit costs of \$176.00 incurred by the subgrantee, also discussed





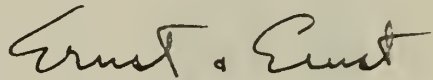
## Ernst & Ernst

in Schedule E, because we were unable to obtain details of how the costs were determined nor invoices or other data to support such costs. Schedule D included hereinafter lists \$105,741.74 of questioned costs, which amount is the sum of the two amounts indicated above. Schedules A, B, and C have been prepared on the accrual basis of accounting.

Because we do not believe that the subgrantee's internal accounting and administrative control procedures are sufficiently adequate, as explained above, and because we were unable to satisfy ourselves with respect to costs of \$105,741.74, we are unable to express an opinion on the fairness of the financial information contained in Schedules A, B, and C.

The determination as to whether costs incurred by the subgrantee under the subgrant will be allowable or unallowable will be made by the Department of Labor.

This report is intended for use in connection with the administration of the CETA subgrant to which it refers and should not be used for any other purpose.

A handwritten signature in cursive script, reading "Ernst & Ernst".

SCHEDULE A

BOARD OF PUBLIC EDUCATION  
SUBGRANT NUMBER 76-56049

STATUS OF FEDERAL FUNDS

SUBGRANT PERIOD FROM JULY 1, 1975 TO SEPTEMBER 30, 1976  
(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

Cash on Hand - July 1, 1975

\$ -0-

Increases

Federal Cash Received  
Program Income

\$479,699.00  
-0-

Total Increases

479,699.00

Total Cash Available

479,699.00

Decreases

Gross Disbursements  
Adjustments

446,407.51  
-0-

Total Decreases

446,407.51

Cash on Hand - at final close out (Due to Prime Sponsor)

\$ 33,291.49

SCHEDULE B

BOARD OF PUBLIC EDUCATION  
STATEMENT OF ACCRUED EXPENDITURES

SUBGRANT PERIOD FROM JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

<u>Cost Category</u>	<u>Cumulative Budget</u>	<u>Cash Disbursements</u>	<u>Accruals</u>	<u>Accrued Expenditures</u>
Administration	\$ 94,500.00	\$ 89,680.49	\$-0-	\$ 89,680.49
Allowances	6,010.00	-0-	-0-	-0-
Training	246,089.00	237,081.76	-0-	237,081.76
Services	<u>133,100.00</u>	<u>119,645.26</u>	<u>-0-</u>	<u>119,645.26</u>
Total	<u>\$479,699.00</u>	<u>\$446,407.51</u>	<u>\$-0-</u>	<u>\$446,407.51</u>

SCHEDULE C

BOARD OF PUBLIC EDUCATION  
ACCRUED EXPENDITURES BY PROGRAM ACTIVITY  
SUBGRANT PERIOD FROM JULY 1, 1975 THROUGH SEPTEMBER 30, 1976  
(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

<u>Cost Category</u>	<u>Vocational Education and Services</u>	<u>Total</u>
Administration	\$ 89,680.49	\$ 89,680.49
Training	237,081.76	237,081.76
Services	119,645.26	119,645.26
Total Actual to Date	<u>\$446,407.51</u>	<u>\$446,407.51</u>
Total Planned to Date	<u>\$479,699.00</u>	<u>\$479,699.00</u>

SCHEDULE D

BOARD OF PUBLIC EDUCATION  
SUMMARY SCHEDULE OF QUESTIONABLE EXPENDITURES  
FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976  
(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

<u>Cost Category</u>	<u>Cumulative Budget</u>	<u>Accrued Expenditures</u>	<u>Amount Questioned</u>	<u>Schedule</u>
Administration	\$ 94,500.00	\$ 89,680.49		
Allowances	6,010.00	-0-		
Training	246,089.00	237,081.76		
Services	133,100.00	119,645.26		
Total	\$479,699.00	\$446,407.51	\$105,741.74	E

Note - Costs questioned along with other related matters are discussed in Schedule E.



BOARD OF PUBLIC EDUCATION  
SUBGRANT NUMBER 76-56049

COMPLIANCE AND INTERNAL CONTROL

FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976  
(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

A. Summary of Auditor's Observations and Recommendations

As part of our examination, we made a study of the system of internal accounting and administrative control to the extent we considered necessary to evaluate the system as required by the CETA Audit Guide.

The objective of internal accounting and administrative control is to provide reasonable, but not absolute, assurance as to the safeguarding of assets against loss from unauthorized use or disposition, and the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal and administrative accounting control. In the performance of most control procedures, errors can result from misunderstanding of instructions, mistakes of judgment, carelessness or other personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management with respect to the estimates and judgments required in the preparation of financial statements. Further, projection of any evaluation of control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our study and evaluation of the system of internal accounting and administrative control for the period July 1, 1975 to September 30, 1976 would not necessarily disclose all weaknesses in the system. In our opinion, the internal accounting and administrative control procedures are not sufficiently adequate to conform to procedures prescribed by Federal Regulations and the Department of Labor CETA guidelines which have been determined to be adequate for accountability of assets and compliance with regulations. The following comments discuss a number of matters which lead us to believe that the Subgrantee has not followed adequate procedures in the fiscal management of subgrant funds it has received nor in the proper monitoring of sponsoring agencies with which it contracts for services.

## BOARD OF PUBLIC EDUCATION

SUBGRANT NUMBER 76-56049

## COMPLIANCE AND INTERNAL CONTROL (CONTINUED)

FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

Errors in Monthly Expenditure Reports and in Subgrant Close Out Reports

Reports submitted by the Office of the Superintendent of Public Instruction (OSPI) to the Governor's Office Employment Training Council and to us for review were improperly prepared for several months during the subgrant period. Substantial unexplained differences were noted by us when we added prior monthly cost accumulations to date to current monthly costs to arrive at current monthly cost accumulations to date for the months of February, March, May, July, and August of 1976. The September, 1976 cost report showed total costs of \$383,769.64 before close out of the subgrant period.

OSPI submitted a subgrant close out report dated November 12, 1976 which reflected costs incurred of \$444,692.98 through September 30, 1976. This figure was intended to include cost accruals owing at the subgrant closing date over and above the \$383,769.64 noted above.

OSPI submitted a revised subgrant close out report dated April 7, 1977 which reflected various corrections and adjustments for certain costs reported by sponsoring agencies with the result that costs totaling \$446,407.51 were finally reported in the revised report.

We have reviewed the OSPI close out reports of November 12, 1976 and April 7, 1977 and related close out reports from sponsoring agencies with which OSPI contracted for services as well as administration costs incurred by the OSPI headquarters office, and we were finally able to reconcile costs reported by agencies and OSPI headquarters costs to the aforementioned cost totals of \$444,692.98 and \$446,407.51.

Because the earlier close out report submitted by OSPI was not accurate we used the amounts reflected in the final OSPI revised close out report dated April 7, 1977 in Schedules A, B, C, and D included heretofore in this report.

BOARD OF PUBLIC EDUCATION  
SUBGRANT NUMBER 76-56049

COMPLIANCE AND INTERNAL CONTROL (CONTINUED)

FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976  
(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

Part of the problem in cost reporting appears to have been the result of the inability of OSPI to obtain proper timely cost reports from its sponsoring agencies and its own inability to properly summarize costs reflected by such reports and to relate these costs to those recorded by its fiscal division.

We strongly recommend that OSPI review its internal accounting procedures, improve its monitoring of sponsoring agencies, and correct its mistakes in order that reports prepared in the future will be accurate and not misleading.

Comparison of Cash Receipts with Cash Expenditures

Despite the problems which we encountered in our review of period to date cost reportings noted above, we did make a comparison of cash received from the prime sponsor with expenditures incurred, however, such comparison was not too meaningful because of the wide swings in reported cost figures on a cumulative monthly basis. It appears, however, that OSPI was drawing funds too rapidly from the prime sponsor during some months of the subgrant period.

We strongly recommend that OSPI improve its cash budgeting procedures in order to match more closely its monthly requests for funds with monthly anticipated expenditures in order that it may more efficiently utilize funds obtained from the prime sponsor.

Cash Balance Based Upon Final Revised Close Out Report of April 7, 1977

The cash balance of \$33,291.49 due to the prime sponsor is comprised of the following amounts:

Balance in state cash accounts	\$22,137.13
Refunds due from sponsoring agencies	<u>11,154.36</u>
Total	<u>\$33,291.49</u>



BOARD OF PUBLIC EDUCATION  
SUBGRANT NUMBER 76-56049

COMPLIANCE AND INTERNAL CONTROL (CONTINUED)

FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976  
(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

Our analysis of the status of cash balances disclosed that OSPI was not timely in requesting return of funds from sponsoring agencies on a timely basis when advances made to them exceeded their actual costs incurred. One agency returned \$59.26 in December, 1975; four agencies returned \$10,445.42 in April, 1977; and one agency had not yet returned \$649.68 as of April 7, 1977.

We strongly recommend that OSPI take the necessary steps to request agencies to return excess funds more promptly.

Audit of Costs Incurred by Certain Sponsoring Agencies

We selected certain agencies sponsored by OSPI for audit of costs incurred by them which were charged to the CETA program. Our comments follow.

(1) Great Falls Vo Tech:

OSPI account 0553 - costs of \$65,344.58

The Vo Tech office maintains certain cost records and the School District business office also maintains certain records as to costs incurred and receipt of funds from OSPI. We noted that costs were reasonably well supported, however, minor differences occurred in the recording of costs by the two bodies. We also noted that reported cost figures to OSPI from time to time were estimates or best guesses.

We recommend that this agency should properly reconcile its costs with amounts controlled by the business office and that the process of estimating be eliminated in order that monthly cost reports to OSPI may be accurate.

(2) Missoula Tech Center:

OSPI account 0598 - costs of \$33,926.70

BOARD OF PUBLIC EDUCATION

SUBGRANT NUMBER 76-56049

COMPLIANCE AND INTERNAL CONTROL (CONTINUED)

FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

Differences between Tech Center reported costs to OSPI and those recorded in its records tend to be minor. The differences appear to be the result of improper accruals caused by lateness of invoices received by Tech Center.

We recommend that Tech Center improve its accounting for accruals since it should have adequate knowledge of amounts to be invoiced even though invoices are not promptly received. Additionally, we recommend that Tech Center should provide for proper approval of invoices received, which approval is sometimes lacking, and also provide for proper classification of costs in the cost categories for administration, training, and services. Classification of costs on occasion is not properly made.

(3) Billings Adult Learning Center:

OSPI account 0552 - costs of \$105,565.74

Based upon our review of the records at the Center and discussions with the Center's director we learned that the Center used CETA funds to cover expenditures of the Center when other funds were not available. In other words, the cost of training, administering, etc. of the CETA students compared to the overall cost of operating the Center were not those expenditures reported. Expenditures reported represent whatever expenses were paid during a particular month using CETA funds.

We conducted a test of trainees enrolled, for compliance criteria, etc. but we were unable to arrive at the number of students during a particular period who were CETA approved students compared to total enrollment. Further, some of the students the Center refers to as CETA students in its count have not been processed by the Employment Security Department but rather have come into the Center "right off the street". Therefore, it is virtually impossible to determine whether these particular students qualify under Title I of the CETA act as to specific criteria.



## BOARD OF PUBLIC EDUCATION

SUBGRANT NUMBER 76-56049

## COMPLIANCE AND INTERNAL CONTROL (CONTINUED)

FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976

(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

We also noted that monthly reports of expenditures submitted by the Center to OSPI were difficult to evaluate and were sometimes incomplete. The monthly pattern of costs also appeared to be rather inconsistent as noted below.

<u>Month</u>	<u>Amount</u>
1975: November 30 to date, no prior cost breakdown	\$ 11,504.12
December	5,640.36
1976: January	-0-
February	6,841.64
March (report not found at OSPI)	12,134.37
April	13,012.20
May	5,302.60
June	13,248.31
July (report was late)	40.10
August (for July)	10,822.16
September (appears to be for August)	10,477.19
September (reported in October)	44.06
September (not shown on report)	15,508.05
Accruals	940.88
Total per first close out report	<u>105,516.04</u>
Subsequent adjustment	49.70
Total per final close out report dated March 25, 1977	<u>\$105,565.74</u>

BOARD OF PUBLIC EDUCATION  
SUBGRANT NUMBER 76-56049

COMPLIANCE AND INTERNAL CONTROL (CONTINUED)

FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976  
(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

Additionally, we noted that there was little correlation between monthly figures recorded by the Center in its books with those reported to OSPI although the aggregate total of its costs was reasonably close to the final total reported.

In view of the matters discussed above we take exception to the aforementioned costs of \$105,565.74.

(4) "Carry-In" Projects from Prior Period Ended June 30, 1975:

Total costs for the fifteen month period ended September 30, 1976 include the costs of certain agencies for projects which were not completed during the prior subgrant period. The OSPI budget for the current period includes these "carry-in" projects and was approved by the Governor's Office Employment Training Council. Such costs totaled \$67,152.98.

In our examination of other program costs of agencies which we selected for audit at Great Falls, Missoula and Billings, we were able to reasonably satisfy ourselves with respect to \$30,549.73 of costs related to these "carry-in" projects. We could find no support for costs of \$176.00 reported by Billings Vo Tech under OSPI account 0665.

Property Accounting

Certain schools which OSPI sponsors in its training programs which are included in this subgrant occasionally purchase equipment with CETA funds for use in such programs. We found no evidence at the OSPI office that it was maintaining control over this equipment or requesting agencies to provide continuity schedules for acquisition or disposition of this equipment.

We strongly recommend that OSPI adopt a plan for control of all equipment purchased with CETA funds.

BOARD OF PUBLIC EDUCATION  
SUBGRANT NUMBER 76-56049

COMPLIANCE AND INTERNAL CONTROL (CONTINUED)

FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976  
(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

Summary

The following is a summary of costs incurred under this subgrant, cost exceptions, etc.

	OSPI Account	Total Costs	Costs at Audited Locations	Cost Exceptions
Great Falls Vo Tech	0553	\$ 65,344.58	\$ 65,344.58	
Missoula Tech Center	0598	33,926.70	33,926.70	
Billings Adult Learning Center	0552	105,565.74	105,565.74	\$105,565.74
Helena Vo Tech	0646	10,870.32		
Flathead Valley Community College	0629	10,388.84		
Miles Community College	0656	5,800.00		
Deer Lodge - Board of Pardons	0001	84,061.00		
Lame Deer - Northern Cheyenne	0654	7,883.61		
		<u>323,840.79</u>	<u>204,837.02</u>	
Carry-in projects from prior fiscal year:				
Great Falls Vo Tech	0614	5,609.28	5,609.28	
Missoula Tech Center	0624	3,424.23	3,424.23	
Billings Adult Learning Center	0604	21,516.22	21,516.22	
Billings Vo Tech	0665	176.00	176.00	176.00
Helena Vo Tech	0603	3,431.96		
Flathead Valley Community College	0676	19,418.65		
Miles Community College	0677	3,842.50		
Deer Lodge - Board of Pardons	0596	9,734.14		
		<u>67,152.98</u>	<u>30,725.73</u>	
OSPI - Helena Office administrative costs		55,413.74	55,413.74	
		<u>\$446,407.51</u>	<u>\$290,976.49</u>	<u>\$105,741.74</u>

BOARD OF PUBLIC EDUCATION  
SUBGRANT NUMBER 76-56049

COMPLIANCE AND INTERNAL CONTROL (CONTINUED)

FOR THE SUBGRANT PERIOD JULY 1, 1975 THROUGH SEPTEMBER 30, 1976  
(INCLUDING TRANSACTIONS TO THE DATE OF FINAL AMENDED CLOSE OUT AT APRIL 7, 1977)

We strongly recommend that OSPI improve its own internal accounting with respect to costs of agencies with which it contracts for services and to monitor such agencies much more effectively in the future in order that such agencies will maintain satisfactory records, maintain support for costs incurred and properly account to it for costs which may be properly chargeable to specific programs for which federal funds are disbursed instead of allowing such agencies to follow arbitrary procedures in charging their costs to the programs which they sponsor in cooperation with OSPI.

B. Discussion of Audit Results

We discussed various matters with personnel of the sponsoring agencies which we selected for audit and, in addition, with CETA personnel of the Office of the Superintendent of Public Instruction on April 7, 1977. On that date we advised the personnel of OSPI that we would discuss a number of matters in our report and that we would take exception or qualification in the report. We also advised OSPI personnel that we had to devote an excessive amount of time and expense to conduct the audit of this subgrant because of the poor records and controls and the numerous deficiencies with respect to which we had to cope.

This report is intended for use in connection with the administration of the CETA Subgrant to which it refers and should not be used for any other purpose.

AGENCY REPLIES





State of Montana  
Office of The Governor  
Helena 59601

THOMAS L. JUDGE  
GOVERNOR

GOVERNOR'S EMPLOYMENT  
& TRAINING COUNCIL

October 12, 1977

Legislative Audit Committee  
Montana State Legislature  
Office of the Legislative Auditor  
State Capitol  
Helena, Montana 59601

Gentlemen:

Enclosed are the audit drafts and the response for the Office of Public Instruction CETA Fiscal Year 1976 subgrants 76-56048 and 76-56049.

We consider the initial response unsatisfactory and are in the process of working with them to ensure their second response will meet with the Committee's approval.

Once we have received that response, we will forward to the Committee for their consideration.

Sincerely,



BRUCE H. DeROSIER  
Executive Director

Enclosure

CETA Audit Response  
Subgrant 76-56049  
Subgrant 76-56048

As illustrated in the audit report, at times past operations were loosely conducted. This has now been resolved. The Office of Public Instruction (OPI) now has a new Superintendent of Public Instruction, setting new directions for the office. CETA is now under OPI's Department of Administrative Services rather than the Department of Vocational and Occupational Services, where it labored so long as the unwanted stepchild. The Department of Administrative Services came under new management as of April 4, 1977 and CETA is now a priority project. The CETA Division has a new manager and new operational staff. CETA has recently taken new directions with new systems developed and new methods of operation.

For the first time CETA has gaining control of its operation. New bookkeeping, inventory, records, and management systems are in operation. Old methods which lead to audit exceptions have been or are being eliminated. It is anticipated that next year's audit will present a completely different picture of CETA operations.

This office has requested and is eagerly awaiting another meeting with the auditors responsible for these reports.

The Office of Public Instruction has recently contracted with Northwest Lab for technical assistance with its recordkeeping systems. The following is a discussion on each exception or suggestion made in the audit reports.

Summary of Auditor's Observations and Recommendations

If OPI "internal accounting and administrative control procedures are not sufficiently adequate" as stated by the auditors, then this must be true of all state agencies. OPI utilizes the state standard budgeting and accounting systems. OPI does not concur with that general statement and submits that the auditors have overstated the case.

Errors in Monthly Expenditure Reports and Subgrant Closeout Report

OPI generally concur with the auditors report regarding these errors. However, OPI take exception to the statement that these differences were "unexplained differences". The audit report goes on to state that they were "able to reconcile costs reported". How was this done if these items remained unexplained?

In regard to the February, March, May, July, and August reports, we agree that they were incomplete. Several projects failed to submit expenditure reports and therefore, the monthly reports were compiled using the best available data. The September closeout report was inaccurate. For that reason OPI submitted a revised closeout report in November for \$446,407.51. This is the figure that the auditors reconciled on. Due to the startup of school and the one to two months turn-around time many schools have with their computerized systems, the September project costs which were inaccurate. GETC's definition of when an accrual and when an expense occurs are different from that of many schools. What one calls an incurrence the other calls an accrual.

The September closeout was based upon the best information available at that time. The revised closeout was compiled after more accurate information was on hand.

OPI has taken steps to rectify the monthly reporting of expenditures by projects. Reports from projects now break down expenditures by the three CETA categories of administration, training, and services. The old forms were vague and difficult to understand. These have been replaced by a new reporting form that is simpler and self-explanatory. The monthly expenditure report is on the same form as the cash requests and both must be filled out to receive funds. These reports are now closely monitored and requests are compared against budgeted amounts by category as well as by balance. In the past the reports were going from the CETA office to the vocational education bookkeeper who was exercising arbitrary decision power over requests for cash. This resulted in

changes in cash requests after approved for payment by the CETA office. As a result, it became very difficult to monitor cash on hand in the field. The CETA working books were also maintained by vo-ed. These things no longer happen. CETA keeps its own working books. The unnecessary step of a vo-ed bookkeeper has been done away with. Now cash requests go directly to the OPI accounting department. At least once a month, the CETA working books and OPI SABS system records are reconciled. Previously only monthly expenditure reports requesting cash were sent to the accounting office. This office filled out the monthly reports. Now all monthly field reports are utilized. The CETA office will soon be filling out the expenditure reports and sending them to GETC. The reporting date has been moved from the fifth working day to the tenth working day allowing more time for reports to arrive from the field.

Another factor that caused problems with last year's closeout report and the resulting inconsistency was that FY 76 was a changeover year for fiscal reporting. There was a one time, three month extension in the fiscal year. It was not well planned and created many problems. The state remained on the old fiscal year while the Federal Government went to the new. OPI's computer could not handle both fiscal years. As a result, the additional months had to be hand posted. This problem still exists to a lesser extent. OPI's computer is programmed for the state's fiscal year not the federal fiscal year.

Monthly reports are now more accurate and timely and OPI will be able to provide an accurate and timely closeout report for fiscal year 1977.

As explained above, the internal reporting procedures have been revised and improved. OPI now monitors reports from sponsoring agencies much closer, and mistakes have been corrected to make future reports accurate.

#### Comparison of Cash Receipts with Cash Expenditures

OPI concur with the auditor's suggestion that budgeting procedures be improved to match more closely monthly requests for cash with anticipated expenditures. OPI is presently implementing a new system in order to more effectively utilize funds. A chart will be kept reflecting the average monthly expenditures of each operating project so that cash requests can be anticipated. In the past, most projects operated with negative balances during some months and had too much cash on hand in other months. As a result of not getting money on a timely basis many programs would double their orders in anticipation of late arrival. If funds came in faster than expected they would have a



positive balance at the end of the month. This is now monitored much closer. However, cash flow is still somewhat of a problem but OPI and GETC are jointly working on resolving this situation.

We take exception to the auditor's statement that "OSPI was drawing funds too rapidly from the prime sponsor during some months". The auditors came to this conclusion because they considered cash on hand in the field the same as cash on hand at OPI. We contend that once we send cash to a project that constitutes an expenditure since it is no longer available to us. If man A writes man B a check it is an expenditure for man A when the check is written not when man B spends the check.

Also, most project's expenses are heavier during startup or closedown than during normal months of operation. CETA projects vary in length with projects starting and ending at different times. This causes some month's expenses to be much greater than others.

#### Cash Balance Based Upon Final Revised Closeout Report of April 7, 1977

OPI concur with the auditor's statement that OPI "was not timely in requesting returns of funds from sponsoring agencies...". Sponsoring agencies are now monitored on a monthly basis for monies expended and amounts unexpended. On-site spot checks of project's books are now being conducted. Within 30 days of project completion a letter is sent out requesting the return of any unexpended funds.

#### Audit of Costs Incurred by Certain Sponsoring Agencies

Great Falls--OPI concur with the auditor's suggestion that the vo-tech and the business office reconcile cost and not estimate costs. However, we feel that a limited amount of variance is to be expected due to turn around time. The vo-tech tried to estimate some costs to more accurately reflect expenditures to date. The auditor's suggestions have been shared with the vo-tech.

Missoula--OPI concur with the recommendation of the auditor regarding proper approval on invoices, and reporting cost by category accurately. These recommendations have been discussed with the vo-tech and a new project application form developed by GETC will define and label cost accurately. However, OPI feel that it must clarify a point. Accruals are defined by the prime sponsor as expenses due and payable within the reporting month. The auditor speaks



of accruals as if they became an accrual when the item was ordered. This is not the case with CETA. The invoice must have been received and the due date must have passed in the reporting month. Most schools in Montana consider their funds encumbered when an order goes out. In the past encumbrances were often treated as accruals. This has been discussed with the schools and the new report forms avoid that confusing term.

Billings, Adult Learning Center--OPI concur with the auditor's statement about the method of expending CETA funds. Although the method is incorrect and OPI has informed the Center that this practice must stop, it must be stated that over the span of the fiscal year, CETA got its fair service.

OPI does not handle student referrals.

OPI takes strong exception to the auditor's exception to the total amount expended by CETA at the Billings, Adult Learning Center. OPI contends that it is beyond reason to take exception to the total amount expended when in the auditors own words "the aggregate total of its costs was reasonably close to the final total reported". In the pre-audit review OPI raised the point and the auditors concurred. Now it seems that they have reversed themselves. OPI concurs that the method of expenditure was at times incorrect but, the amount of services provided CETA students equaled the amount of funds expended. Therefore, their total exception is beyond reason.

OPI will be conducting on-site audits to prevent this method of expenditures in the future. Expenditure reports will have to reflect actual expenditures for the period.

OPI must take exception to the auditor's statement about project -0665. There was no such project operated in FY 76. In 1975 OPI operated such a project and has to assume that this was mistakenly taken as a 76 project by the auditors.

#### Property Accounting

OPI concurs with the auditor's statements regarding CETA inventory. No inventory of CETA purchased equipment has been maintained by this agency. The local training agencies all keep inventories for insurance purposes and CETA purchased equipment can be extracted from their list. The necessary ground work has never been laid to build an inventory system. Terminology must be defined before a system can go into effect. Since the auditors report, OPI has been and is still in the process of extracting inventory information from the field.

GETC has stated that it will be the agency to compile and maintain inventory records. Therefore, OPI has transferred its records to GETC. It is anticipated that GETC will complete its inventory efforts early in the coming fiscal year.

OPI has developed a contract to be used in the coming fiscal year that will require inventory reports and updates with the closeout of each project. GETC will conduct an on-site inventory in September or October of this year. OPI will be monitoring inventory in the field from now on.

OPI, like all other state agencies, utilized the state's SBAS system. Reportedly, SBAS is the finest state accounting system in operation in any of the 50 states. OPI feels that this system provides excellent internal control. Recently another auditing team auditing Vocational Education, the agency CETA fell under in 1976, indicated that Montana's Vo-Ed was the best accounted for of all the Vo-Ed's in the region. OPI agrees that much improvement is needed over the methods of operation in 1976 and has made many changes to comply with the auditors suggestions. However, OPI feels that in some instances the audit paints a picture blacker than the situation called for. Often the auditors would complain about the lack of supporting documents, these documents were found when a closer look was taken.

OPI has taken the necessary steps to remedy the mistakes of the past. The items of concern listed in the audit should not occur again.

As stated in the response to the audit of Subgrant 76-56049, OPI does not concur with the auditors statement that the SAS system is insufficiently adequate as an internal accounting and administration control. OPI does feel that there is room for improvement and has contracted with Northwest Labs for technical assistance to improving its use of the system.

Errors in Monthly Expenditure Reports and in Subgrant Closeout Reports

As the language in this section is identical with that of the corresponding section in the audit of Subgrant 76-56049, for brevity sake OPI concurs and takes exception correspondently as it did to this section in that audit.

Comparison of Cash Receipts with Cash Expenditures

OPI's response to this section is identical to its response to the corresponding section of the audit of Subgrant 76-56049.

Cash Balance Based Upon Final Revised Closeout Report

See corresponding response on audit of Subgrant 76-56049.

Audit of Costs Incurred by Certain Sponsoring Agencies

Great Falls Vo-Tech Center--See corresponding response to audit of Subgrant 76-56049.

Missoula Technical Center--See corresponding response to audit of Subgrant 76-56049.

Billings Vo-Tech Center, Account -0593--OPI concurs that during the month of July 1976 CETA funds were incorrectly utilized to pay all instructional salaries and that all students who benefited from training that month may not have all been CETA students. This practice is unexceptable and the vo-tech has been informed that this method of expenditure will not be allowed in the future. However, OPI would like to point out as indicated in the first paragraph of this section that the vo-tech's expenses in training CETA students was "slightly higher" than the total reimbursement that agency received. Although the method of expenditure was not consistent with CETA regulations, CETA did get more than its money's worth during the project year.



OPI takes exception to the auditor's statement that the lease rental of a copy machine for the period August 1, 1976 through March 1, 1977 is "excessive". OPI picks up a portion of the total rental cost. The service received and the cost saving effect of having a machine of this quality well justifies this expense.

OPI takes strong exception to the auditor's question of the "propriety" of the total amount of Project -0593. By doing so the auditors are inferring that all the funds were improperly handled. This is simply not the case. It is beyond reason to take exception to the total expenditure when in their own words "the month of July 1976" was the expenditure month in question. July represents only 1/15 of the total months of the project not the total project. Also, only a portion of July's expenditure are in question, not the total. In light of this and the fact that CETA received more service than it paid for, OPI strongly objects to the auditors arbitrary exception to the total project's cost. To do so is absurd!

Billings Vo-Tech Center, Account -0597--OPI concurs that the \$14,908.00 administration expense reported by the vo-tech exceeded the 20% CETA guidelines. However, that amount varies less than the 15% allowable variance from the \$14,665.00 approved by the Operations Committee. Federal CETA Regulations state that this guideline can be exceeded in some cases but that the total CETA expense of the various state projects may not exceed a total of 20%. As the audit states, many costs charged to administration were correctly chargeable to training.

Again OPI takes exception to the auditor's arbitrary exception to the total project amount when in reality only a small portion of that amount may have been expended in a somewhat questionable manner.

The new application forms developed by GETC will eliminate the confusion that had resulted in incorrect charges of costs to the wrong cost category. Schools have traditionally charged rent, heat, and etc. to administration. CETA considers these items as training costs when incurred for training space. This incorrect charging off of expenses resulted in an excessive administration expense being reflected on their reports. A corrected report would show administration cost below 20%.

Projects are no longer allowed to charge CETA more than its fair share of the cost of training for any given period. This will be enforced through on-site reviews.

Billings, Adult Learning Center--OPI concurs that some students were not bona fide CETA students. No students can now enter until the Employment Service

certifies them as CETA eligible. However, OPI takes strong exception to the auditor's exception to the total project cost when only a fractional portion of the total cost is open to question. The great majority of expenditures were totally in line. In addition, OPI has no responsibility for student referral.

All State Individual Referral Program--OPI concurs with the auditor's statement that "cost cutoff is not clear". The Physician's Laboratory Service has had problems in getting billings submitted on a timely basis. This school has one instructor who doubles up as the administrator, counselor, bookkeeper and lab technician. They have never been able to grasp a clear understanding of all the technical aspects of CETA. As a result, it is often difficult to trace their expenditures. In 1976 this school had no bookkeeping ledgers at all, only a large sack where they kept all letters, student records, and etc. This school, however, has the highest average on the national test for lab assistants. It is the only such school in Montana and has 100% placement after graduation. OPI has informed the Physician's Laboratory Service that all classes from now on will have to be class-size groups and that the hospital's accounting department will have to keep records and that the instructor can only instruct.

OPI contends that the \$3,709.70 was indeed payed out after September 30, 1976 but that the services paid for were incurred within fiscal year 1976 and therefore, were rightfully chargeable to fiscal year 1976.

OPI concurs with the auditor's statement regarding the Yellowstone Auto College. This operation did go bankrupt and there may have been some irregularities on the part of the owner. Whenever private schools are contracted, this possibility exists. However, often in some areas, the only source of training is by proprietary school. OPI now makes more on-site visits and conducts pre-audits.

#### Carry-in Projects From Prior Period Ending June 30, 1975

In the past many things were handled over the telephone with no paper work following. This no longer happens. All remodeling must now be approved in writing. OPI followed up the auditor at Billings Vo-Tech Center and were able to find the "invoices and other data" to support their costs. Copies of this material is on file in our office.

Property Accounting

OPI's response to this section is identical to its response to the corresponding section of the audit of Subgrant 76-56049.

OPI has redeveloped its report forms, has contracted with Northwest Labs for technical assistance and now performs on-site audits of its various projects. The CETA working books are reconciled monthly with the SBAS records. Cash requests are closely monitored. All audit information has been fully discussed with the various project operators. Those areas where improvement was needed have received a great deal of attention since the audit discussion of April 7, 1977. Corrections have been implemented.







